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**EASTERN BAKERIES** Limited

## Annual Report

For the fiscal year ended October 29, 1977



TWO NEW BUTTER-NUT PRODUCTS



**EASTERN BAKERIES** Limited

### **SUBSIDIARY COMPANY**

BERWICK BAKERY LIMITED

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### **DIRECTORS**

L.M. BELL    H.W. BLAKELY    R.B. BRENNAN JR.  
R.G. DALE    D.G. HICKINGBOTTOM    L.M. MACHUM, Q.C.    J.A. TELFER

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### **MANAGEMENT**

DONALD G. HICKINGBOTTOM, President and Chief Executive Officer  
JOHN H. BLACK, Secretary Treasurer  
S. FRASER CAMPBELL, Vice President, Production  
GLEN J. GIBBONS, Vice President, Finance  
JOHN T. NISBET, Vice President, Sales

D.G. ANGLIN, Director of Operations  
H.J. ARSENEAULT, Manager Operations — Berwick Bakery Division  
W.J. CHASE, Manager, Data Processing  
Z.M. CONNICK, Manager Operations, Walsh's Bakery Division

F. HART, Manager, Moncton Plant  
D.A. NOEL, Director of Marketing  
I.C. PARKER, Comptroller  
G.J. YOUNG, Manager, Personnel Relations

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### **AUDITORS**

THORNE RIDDELL & CO., Saint John, N.B.

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### **BANKERS**

BANK OF MONTREAL, Saint John, N.B.

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### **TRANSFER AGENTS**

MONTREAL TRUST COMPANY, Saint John, N.B.



# EASTERN BAKERIES LIMITED, 1977



NEW FREDERICTON DISTRIBUTION CENTRE



ENGLISH MUFFIN LINE — MONCTON

## FINANCIAL HIGHLIGHTS

	<u>1977</u>	<u>1976</u>
NET SALES	19,722,621	19,238,060
INVESTMENT INCOME	185,513	144,318
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	1,755,150	1,696,756
INCOME TAXES	754,652	707,253
INCOME BEFORE EXTRAORDINARY ITEM	1,000,498	989,503
NET INCOME FOR THE YEAR	1,249,254	989,503
EARNINGS PER SHARE		
BEFORE EXTRAORDINARY ITEM	2.63	2.61
EARNINGS PER SHARE FOR THE YEAR	3.31	2.61
RETURN ON INVESTMENT		
BEFORE EXTRAORDINARY ITEM	17.1%	18.4%
DIVIDENDS ON COMMON SHARES	317,231	294,493
DIVIDENDS ON PREFERRED SHARES	29,150	27,500
EQUITY PER COMMON SHARE	14.48	12.13
WORKING CAPITAL	2,299,467	2,266,135
CAPITAL SPENDING	780,952	486,405



## TO THE SHAREHOLDERS:

In the fiscal year just ended, sales reached record levels and our earnings were the best ever achieved.

Earnings before the extraordinary item for the year ended October 29, 1977 were \$1,000,498 or \$2.63 per common share as compared to \$989,503 or \$2.61 per common share for the previous year. The extraordinary item, representing the after-tax gain on the sale of Fredericton property, increased net earnings for the year to \$1,249,254 or \$3.31 per common share. There were no extraordinary items in the prior year.

Sales for the year were \$19,722,621, up 2.5% over the \$19,238,060 recorded last year.

White bread consumption throughout Canada during our fiscal year was unfavourable as compared to the prior year and is of concern to all within the industry. Our efforts to offset these difficulties through the addition of new products has been most rewarding. Brown and Serve Rolls which we introduced in January, and which are pictured on our cover, have continued to increase in volume each month. More recently we added Butter-Nut English Muffins, also pictured on our cover, and consumer response has by far exceeded our expectations. The excellence of these new products is assured, as only the best of ingredients are employed in our recipes; and the new fully-automated equipment acquired during this year to produce these items guarantees the high quality and consistency desired. Success acts as a great motivator to those of our people involved in new product development. New Products planned for 1978, coupled with those mentioned above, add a very positive note to our sales outlook for the fiscal year 1978. It should be mentioned that at least one of these new products will tie in with the celebration of our 50th year in business, which takes place in 1978.

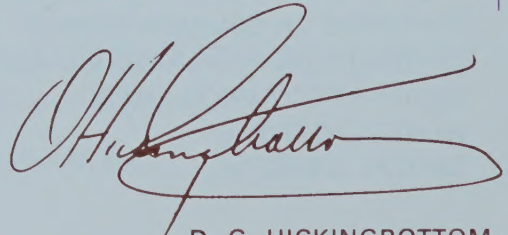
At the Directors Meeting held September 21, 1977, it was resolved that the company redeem on the 28th day of October, 1977, all preferred shares by paying \$105.00 per preferred share together with accrued dividends of 33¢ per share.

Capital spending for 1978 is expected to amount to 1.1 million dollars. The principal project, costing \$650,000, is to take place in the latter part of the year and involves the purchase of equipment that will result in a more fully automated roll line in our Moncton plant. Completion of the project early in our 1979 fiscal year is expected to increase capacity and improve quality in the finished product, while introducing new economies to our Company.

At the Directors Meeting held December 20, 1977, quarterly dividends per common share due for payment January 15th, 1978, were increased to 22.75¢. This increase is in accordance with increases allowable under the federal control program.

A great number of employees throughout our organization are sincerely interested in the success of the company. Their efforts and the pride they take in their work have contributed greatly to our results. We thank them most sincerely.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "D. G. Hickingbottom", is written over a large, stylized, looped flourish that extends across the width of the signature area.

D. G. HICKINGBOTTOM,

December 21, 1977

President and Chief Executive Officer

EASTERN BAKERIES LIMITED  
**CONSOLIDATED STATEMENT OF INCOME**  
YEAR ENDED OCTOBER 29, 1977

	<u>1977</u>	<u>1976</u>
Sales and revenues		
Sales .....	\$19,722,621	\$19,238,060
Investment Income .....	<u>185,513</u>	<u>144,318</u>
	<u>19,908,134</u>	<u>19,382,378</u>
Costs and expenses		
Cost of sales and operating expenses .....	16,176,020	15,921,524
Administration .....	1,519,593	1,348,474
Depreciation .....	<u>457,371</u>	<u>415,624</u>
	<u>18,152,984</u>	<u>17,685,622</u>
Income before income taxes and extraordinary item .....	<u>1,755,150</u>	<u>1,696,756</u>
Income taxes		
Current .....	698,652	706,253
Deferred .....	<u>56,000</u>	<u>1,000</u>
	<u>754,652</u>	<u>707,253</u>
Income before extraordinary item .....	1,000,498	989,503
Extraordinary item		
Gain on sale of land and building, less income taxes of \$48,300 related thereto .....	<u>248,756</u>	<u>—</u>
NET INCOME .....	<u>\$ 1,249,254</u>	<u>\$ 989,503</u>
Earnings per common share		
Income before extraordinary item .....	<u>\$ 2.63</u>	<u>\$ 2.61</u>
Net income .....	<u>\$ 3.31</u>	<u>\$ 2.61</u>



## CONSOLIDATED BALANCE

### ASSETS

	<u>1977</u>	<u>1976</u>
<i>CURRENT</i>		
Cash .....	\$ 256,054	\$ 4,648
Term deposits .....	692,580	1,733,605
Marketable securities, at cost (quoted market value 1977, \$1,214,210; 1976, \$245,750) .....	1,180,354	248,750
Accounts receivable .....	1,475,001	1,269,518
Federal equipment grant receivable .....	65,000	—
Inventories .....	403,975	395,091
Prepaid expenses .....	153,161	143,085
	<u>4,226,125</u>	<u>3,794,697</u>
<i>OTHER</i>		
Mortgages receivable, 12% maturing in 1980 .....	164,000	—
Investments, at cost .....	7,100	7,100
	<u>171,100</u>	<u>7,100</u>
<i>FIXED (note 2)</i>		
Land, buildings, machinery and equipment, at cost .....	8,121,163	7,770,929
Less accumulated depreciation .....	5,131,594	5,052,533
	<u>2,989,569</u>	<u>2,718,396</u>
<i>INTANGIBLE</i>		
Goodwill, at cost .....	376,354	376,354
	<u>\$7,763,148</u>	<u>\$6,896,547</u>

Approved by the Board:

Director R.G. DALE

Director D.G. HICKINGBOTTOM

# **EET — OCTOBER 29, 1977**

## **LIABILITIES**

	<u>1977</u>	<u>1976</u>
<b>CURRENT</b>		
Bank advances .....	\$ —	\$ 9,504
Accounts payable and accrued liabilities .....	1,306,253	957,670
Payable to parent company, Maple Leaf Mills Limited .....	422,455	391,749
Income and other taxes payable .....	197,950	162,139
Dividends payable .....		7,500
	<u>1,926,658</u>	<u>1,528,562</u>
<b>DEFERRED INCOME TAXES</b> .....	<u>492,000</u>	<u>402,000</u>

## **SHAREHOLDERS' EQUITY**

<b>CAPITAL STOCK</b> (note 3)		
Authorized		
4% Cumulative participating preferred shares, par value \$100, redeemable at \$105 per share (5,000 in 1976)		
390,000 Common shares of no par value		
Issued		
Preferred shares (5,000 in 1976) .....	—	500,000
369,006 Common shares (368,116 in 1976) .....	<u>37,099</u>	<u>31,467</u>
	37,099	531,467
<b>RETAINED EARNINGS</b> .....	<u>5,307,391</u>	<u>4,434,518</u>
	<u>5,344,490</u>	<u>4,965,985</u>
	<u>\$7,763,148</u>	<u>\$6,896,547</u>

**LEASE COMMITMENTS** (note 4)

**UNFUNDED PAST SERVICE PENSION LIABILITY** (note 5)



EASTERN BAKERIES LIMITED  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
YEAR ENDED OCTOBER 29, 1977

	<u>1977</u>	<u>1976</u>
Balance at beginning of year .....	\$4,434,518	\$3,767,008
Net income .....	<u>1,249,254</u>	<u>989,503</u>
	5,683,772	4,756,511
Dividends		
Preferred shares .....	29,150	27,500
Common .....	<u>317,231</u>	<u>294,493</u>
	346,381	321,993
Premium and tax on the redemption of preferred shares .....	<u>30,000</u>	<u>—</u>
	376,381	321,993
BALANCE AT END OF YEAR .....	<u><u>\$5,307,391</u></u>	<u><u>\$4,434,518</u></u>

EASTERN BAKERIES LIMITED  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
YEAR ENDED OCTOBER 29, 1977

	<u>1977</u>	<u>1976</u>
<i>WORKING CAPITAL DERIVED FROM</i>		
Operations .....	\$1,509,962	\$1,380,581
Proceeds from		
Sale of Fredericton land and building, less current income taxes related thereto	325,700	—
Sale of fixed assets .....	13,371	115,274
Issue of common shares .....	5,632	—
	<u>1,854,665</u>	<u>1,495,855</u>
<i>WORKING CAPITAL APPLIED TO</i>		
Additions to fixed assets .....	780,952	486,405
Redemption of preferred shares .....	530,000	—
Dividends .....	346,381	321,993
Mortgage receivable .....	<u>164,000</u>	<u>—</u>
	1,821,333	808,398
INCREASE IN WORKING CAPITAL .....	33,332	687,457
WORKING CAPITAL AT BEGINNING OF YEAR .....	<u>2,266,135</u>	<u>1,578,678</u>
WORKING CAPITAL AT END OF YEAR .....	<u><u>\$2,299,467</u></u>	<u><u>\$2,266,135</u></u>



EASTERN BAKERIES LIMITED  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 YEAR ENDED OCTOBER 29, 1977

**1. ACCOUNTING POLICIES**

(a) Basis of consolidation

These consolidated financial statements include the accounts of the wholly-owned subsidiary company, Berwick Bakery Limited.

(b) Inventories

Inventories of raw materials, wrapping supplies and other items are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(c) Fixed assets

All fixed assets are stated at cost. Depreciation is provided on both the diminishing balance basis and the straight line basis using the following annual rates:

Land improvements . . . . .	4%
Buildings . . . . .	4 to 10%
Machinery and equipment . . . . .	10 to 25%
Delivery equipment . . . . .	30%

(d) Income taxes

Deferred income taxes arise from claiming depreciation and other items for tax purposes in amounts differing from those recorded in the accounts.

**2. FIXED ASSETS**

	<u>1977</u>		<u>1976</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>
Land . . . . .	\$ 199,346	\$	\$ 199,346	\$ 175,283
Land improvements . . . . .	28,515	\$ 8,249	20,266	21,929
Buildings . . . . .	2,310,441	885,669	1,424,772	1,279,351
Machinery and equipment . . . . .	5,117,860	3,840,999	1,276,861	1,159,347
Delivery equipment . . . . .	465,001	396,677	68,324	82,486
	<u>\$8,121,163</u>	<u>\$5,131,594</u>	<u>\$2,989,569</u>	<u>\$2,718,396</u>

### 3. CAPITAL STOCK

During the year the 4% cumulative participating preferred shares were redeemed at \$105 per share.

During the year stock options on 890 common shares were exercised, leaving a balance at October 29, 1977 of 2,580 as follows:

<u>Date of option</u>	<u>Shares under option</u>	<u>Price per share</u>	<u>Expiry date</u>
1968	1,320	\$6.45	1978
1969	<u>1,260</u>	\$6.00	1979
	<u>2,580</u>		

The exercise of stock options outstanding at October 29, 1977 would not have had a material diluting effect on earnings per share.

### 4. LEASE COMMITMENTS

The company rents delivery equipment under a lease. The minimum annual rentals in each of the next five years are:

1978	. . . . .	\$292,000
1979	. . . . .	206,000
1980	. . . . .	77,000
1981	. . . . .	39,000
1982	. . . . .	\$ 29,000

### 5. UNFUNDED PAST SERVICE PENSION LIABILITY

Improvement to the pension plan effective October 31, 1975 has resulted in the company's past service obligations amounting to approximately \$251,000 as of that date. During the last three fiscal years, the company has reduced this liability to approximately \$90,000 as at October 29, 1977. The company expects to repay this liability over the next two years.

### 6. ANTI-INFLATION ACT

Under the federal government's anti-inflation program the company and its subsidiary are subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. In the opinion of management the company and its subsidiary have complied with the provisions of the Act.

Under this Act the dividends which may be paid to the common shareholders during the year ended October 13, 1978 amount to \$.91 per share.

### 7. COMPARATIVE FIGURES

*Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1977.*



## AUDITORS' REPORT

TO THE SHAREHOLDERS OF EASTERN BAKERIES LIMITED

We have examined the consolidated balance sheet of Eastern Bakeries Limited as at October 29, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 29, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saint John, New Brunswick  
December 15, 1977

THORNE RIDDELL & CO.  
Chartered Accountants

